

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 6992**

**BILL NUMBER:** HB 1219

**NOTE PREPARED:** Feb 13, 2003

**BILL AMENDED:** Feb 10, 2003

**SUBJECT:** Provisional Tax Bills and Emergency Borrowing.

**FIRST AUTHOR:** Rep. Kuzman

**FIRST SPONSOR:**

**BILL STATUS:** CR Adopted - 1<sup>st</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
☒ **DEDICATED**  
**FEDERAL**

**IMPACT:** State & Local

**Summary of Legislation:** (Amended) This bill permits the department of local government finance to adopt emergency rules. It changes the maximum amount of a temporary tax anticipation loan for school corporations and townships. The bill allows the governing board of a school corporation to determine that an emergency exists that requires extension of the maturity date of a temporary loan. The bill also establishes temporary provisional property tax billing procedures for a county in which the general reassessment is not completed by the statutory completion date.

**Effective Date:** Upon passage.

**Explanation of State Expenditures:** (Revised) *School Loans:* The state would not pay property tax replacement credits or homestead credits on the levy for the fund established by this bill.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** *School Loans:* Under current law school corporations may borrow money in the form of temporary loans for cash flow purposes in anticipation of state tuition support and property tax distributions to be received in June and December. The loan principal may not exceed 80% of the taxes and tuition support to be collected in the six-month period and must be repaid before June 30 or before December 31 of the same year.

This bill would change the maximum loan amount from 80% of revenues to the highest estimated cash flow deficit for the period plus 5% of the budget for the fund receiving the loan. In actuality, the current loans are limited to the lesser of 80% of revenues or the highest estimated cash flow deficit for the period. So this bill

would (1) remove the 80% of revenue limitation and (2) allow an additional principal amount equal to 5% of the budget.

In addition, this bill would allow school corporations to extend the due date of a temporary loan by up to six months if an emergency exists. During a year of reassessment, the June distribution of property taxes may be made late. In the case of the current reassessment, some December settlements could also be made late. If a settlement is late, the school might not have the revenue to repay a temporary loan on the current due date.

The increase in the borrowing capacity and extension of maturity dates could increase interest payments. The interest on loans can be paid from the school debt service fund. During the 2001 calendar year, schools repaid temporary loans totaling \$486.6 M between July and December of 2001 and temporary loans totaling \$57.6 M between January and June 2001. The interest paid on the temporary loans was \$21.1 M. During the last reassessment, the temporary loans schools repaid increased by 23.4%: from \$543.5 M in CY 1995 to \$721.3 M in CY 1996.

*Township Loans:* Townships may also borrow money in the form of temporary loans for cash flow purposes in anticipation of revenues to be received during the year. The principal of these loans may not exceed 50% of all revenue to be collected during the rest of the year.

This bill would change the maximum loan amount from 50% of revenues to the highest estimated cash flow deficit for the year plus 5% of the budget for the fund receiving the loan. This provision would (1) remove the 50% of revenue limitation and (2) allow an additional principal amount equal to 5% of the budget. The increase in the borrowing capacity could increase interest payments.

*Provisional Tax Statements:* If a county that will have late property tax billings in 2003 or 2004 elects to use provisional statements, the distributions to local units and school corporations could be made on a more timely manner. On-time distributions could reduce or eliminate the need for any short-term debt that units may otherwise need to assume for cash flow, and could consequently reduce interest payments.

Counties that choose to send provisional statements would incur additional administrative costs. At a minimum, these counties would have additional computer programming costs to estimate the tax due and then later to reconcile the estimates with the actual liabilities. A county would also face additional processing, printing, and mailing costs for reconciling statements if the county chooses to send the statements separately instead of combining them with the following year's regular tax statement. Since it would be up to the county treasurer to make the election to send provisional statements, the treasurer would decide if it is a cost-effective measure or not.

**Explanation of Local Revenues:** (Revised) *Provisional Tax Statements:* Currently, property tax bills are sent out in March or April with two equal payments due on May 10 and November 10 of a year. Tax bills must be sent at least 15 days before the first due date. As a result of the ongoing work to complete the current reassessment, many counties will not be able to send tax bills out in a timely manner in 2003 and possibly 2004, the result being later payment of property taxes and later distributions to local units and school corporations in 2003 and possibly 2004.

This bill would allow county treasurers to send provisional tax statements in 2003 and 2004 if the county auditor does not deliver the abstract to the county treasurer by March 16 of the same year. Provisional tax statements in 2003 would be based on 95% of the taxpayer's 2002 property tax liability or on the county

treasurer's estimate of 2003 taxes if there was no liability in 2002 or if the physical characteristics as of the 2002 assessment date have substantially changed since the 2001 assessment date. Provisional tax statements in 2004 would be based on the taxpayer's 2003 property tax liability.

Property taxes that are billed on a provisional statement in 2003 would be due in two equal payments on June 15 and November 10, 2003. The county treasurer would send a reconciling statement to each taxpayer after the abstract is received and final taxes are calculated. The reconciling statement for 2003 may be combined with the tax billing for 2004. If the amount paid on the provisional statement is less than the final tax bill, the taxpayer would have 75 days to pay the difference. Overpayments of less than \$100 would be credited to the following year's tax bill. A taxpayer may elect to receive a credit or file for a refund of an overpayment that exceeds \$100. No interest would be paid on any overpayment amount whether used as a credit or refunded.

Property taxes that are billed on a provisional statement in 2004 would be based on a taxpayer's 2003 actual or estimated tax liability and would be due in two equal payments on May 10 and November 10, 2004. Otherwise, the procedures for 2004 statements are the same as for provisional statements mailed in 2003.

The bill adds that tax amounts that are collected on reconciling statements in the following year do not count towards that later year's 102% levy collection limitation. Hence, the late timing of the payments would not trigger the limitation meant for current year collections.

**State Agencies Affected:** Department of Local Government Finance; State Board of Accounts.

**Local Agencies Affected:** Local governmental units; School corporations.

**Information Sources:** Department of Education Databases.

**Fiscal Analyst:** Bob Sigalow, 317-232-9859